A Framework for Understanding Institutional Factors Affecting the Success and Failure of Offshoring Models in India

Abstract

The objective of this paper is to identify and analyse the factors that influence offshore location decisions from an institutional theory perspective. In the recent years, emerging economies have shown great growth potential and have attracted significant foreign direct investment, especially from companies willing to set up operations. Despite such a favourable global trade environment, not all companies that entered an emerging economy have been successful. Thus, there is a need to understand the factors that influence the success of any offshore location decision. It is also important to understand the relative importance of these factors, in order to develop novel insights useful to practitioners. There is a lack of literature addressing this issue, which this study aims to fill. We conducted a multi-case analysis taking examples of European companies entering India. The findings indicate that successful companies employed locally focused business strategies that enabled them to acquire important relationships and knowledge, and also to adapt to formal institutions, including governmental and regulatory procedures. It was found that, irrespective of size, disregarding collaborative strategies was the main reason for exiting India. These findings are highly relevant for managers and policy makers.

Keywords: Offshoring, Location Decision, Emerging Economies, Institutional Theory

1. Introduction

This paper aims to understand the factors that influence offshoring location decisions. Developing markets have enjoyed the bulk of global growth for a long time now, though this may start to change (The World Bank 2016). Emerging markets such as Brazil, Russia, India and China constantly compete against each other to attract foreign investment. For example, India recently launched the programme, 'Make in India', to attract foreign companies to establish production units in the country (Mudambi, Saranga and Schotter, 2017). Our paper aims to shed light on the factors affecting the need for India to invite foreign investment and developed-market firms' will to invest. In addition to being production locations, these emerging economies are also becoming consumption locations due to the purchasing power of their expanding middle-classes. Thus, they are very attractive destinations for companies to establish operations. Despite the favourable business environment in the host countries, and the obvious supply and demand advantages for companies, not all offshoring decisions are successful. There are several examples of companies exiting an emerging market after making an offshoring decision. Thus, interesting questions to explore could be how companies make offshoring location decisions and what are the most important factors for offshoring projects' success?

There is an extensive range of literature available that concentrates on explaining the offshoring location determinants (Brouthers and Hennart, 2007). A key topic to pursue in current international business scholarship is to explore what factors may determine the foreign entry mode choice for developed-market Multinational Enterprises (MNEs) when entering into emerging markets. This issue has been a widely researched topic in international management in recent times (Brouthers and Hennart, 2007; Canabal and White, 2008). The host market's institutional context, especially in a developing country, is crucial when it comes to the success of offshoring projects (Wright et al., 2005; Meyer et al., 2009a). When compared with developed economies, emerging market institutions are very often volatile and unpredictable, and it is sometimes cumbersome for companies to interact in markets where corruption is often extensive (Khanna & Palepu, 2010).

Some of the more mainstream theories and frameworks on the subject include Transaction Cost Economics (TCE), the Resource-Based View (RBV), and more recently the Institutional Theory (IT), which together form the vast majority of literature covering foreign-market entry and international strategy in recent times. The notion that 'institutions matter' is thus hardly a new or controversial area regarding international business matters such as entry-mode choice (Peng et al., 2008; Hennart, 2012). One can argue for it being less noticeable, for example, compared to the Resource-Based View (Peng et al., 2008). Considering the most prevalent research on the topic, the general consensus suggests that the findings produced are inconsistent and inconclusive while employing a wide range of methodologies (Giachetti and Peprah, 2016; Zhao, Luo and Suh, 2004; Brouthers and Hennart, 2007). Consequently, scholars have inspired further studies to address the institutional impact on companies' choice of offshoring-location decisions, particularly in emerging markets and in relation to the RBV. This theory dictates that companies' internal resources may potentially become more asset-specific because of institutional weaknesses or deficiencies such as weak regulatory/government systems, or weak labour markets (Peng et al., 2008; Meyer et al., 2009a; Khanna and Palepu, 2010; Holtbrügge and Baron, 2013).

Accordingly, the theoretical structure, which serves as the basis for the analysis of the gathered data, will draw inspiration from the vision of Khanna and Palepu (2010) to focus on institutional matters, as well as from academics integrating different theoretical views on entry-mode choice, as in Meyer et al. (2009a). Ultimately, this motivates the following overall research question: **What are the factors that influence offshore location decision outcomes?**

This study is particularly motivated by the absence of investigation on European (mainly Swedish) companies expanding into India, and it is inspired by the issues raised by Khanna & Palepu (2010), particularly those relating to the importance of studying the institutional context in emerging markets from a developed-market point of view. We conducted a multi-case analysis taking European companies that have undertaken offshoring operations in India. Data was collected from archival information, such as organisational reports, press releases, news articles and annual reports. The results were derived from the analysis of data within case companies and cross-case companies. The findings are highly relevant and insightful for managers and policy makers. The novel contribution of this study is that it is able to understand the factors that influence offshoring-location decisions.

The structure of this paper is as follows: the next section presents the literature review. The research methodology is presented in Section 3, and Section 4 presents the data analysis. The results are discussed in Section 5 and the study is concluded in Section 6.

2. Literature review

2.1. Theoretical Background

This section presents a review of the relevant literature by critically analysing the theoretical background.

Transaction-cost economics (TCE) is a widely used viewpoint when it comes to research on internationalisation strategies (Brouthers and Hennart, 2007; Canabal and White, 2008). Principally, TCE asks why financial transactions are structured in the way they are (Williamson, 1994). Transaction costs represents the costs of participation in a market in the form of '*costs of contract negotiations, performance monitoring, risk, and controlling the behaviour of parties who entered into the contract'* (Taylor et al., 1998). The underlying assumption is that by minimising transaction costs, firms can maximise profits, and as a result, companies should seek to form a contract which creates the least transaction costs when internationalising (Williamson, 1985). Therefore, in stable markets, transaction costs are negligible, and companies, as a result of improved efficiency, would benefit from external markets (ibid).

The resource-based view (RBV) outlines how companies use resources that make it possible for them to achieve a sustainable competitive advantage (Barney, 1991). A resource is a corporate strength and may come in the form of tangible or intangible assets: staff qualifications, equipment, trade relations, effective procedures, brands, capital, and so on (Peteraf, 1993). RBV is based on the assumption that the resource packages and capacities, which is the basis for a company's production, are heterogeneous (Barney, 1991). Heterogeneity means that companies can compete in the market with varying abilities and at least break even. A further assumption of the theory is that resources are non-mobile: if resources were completely mobile, it would allow competing companies to implement a strategy in the same way as other companies have implemented their strategies (ibid).

Despite their wide use, both TCE and RBV have ignored the institutional environment. Meyer and Tran (2006) and Brouthers and Hennart (2007) have criticised TCE for its inability to predict and lack of contextualisation. Similarly, it is argued that RBV largely treats institutions as 'background material' (ibid). Thus, both TCE and RBV could be insufficient perspectives in the establishment of companies' international strategies, as external uncertainties (like political risks) limit the value of these resources, while internal uncertainties make the application and transfer of these resources risky (Khanna and Palepu, 2010; Brouthers, 2013). Further, RBV have primarily arisen from studies in the US market, where it has been reasonable to assume stable and developed institutions; as a result, we question the notion of strictly relying on this view in settings characterised by incomplete and broken institutions such as in emerging markets (Peng and Meyer, 2005; Peng et al., 2008). Obviously, stable and uniform institutions are not necessarily the case in the rest of the world, as is evident by research from, among others, Hall and Soskice (2001), Khanna et al. (2005) and Estrin et al. (2009).

2.2. Emerging Markets and Offshoring

Emerging markets are widely different from developed markets, as suggested in Meyer (2001). As Khanna and Palepu (2000) further note, they can be distinguished by looking at the different configurations of the institutions they control. In emerging markets, there are often no intermediaries (e.g. market-research firms) that bring together customers and manufacturers, and this poses significant challenges for actors entering those markets (ibid). Khanna and Palepu (2010) use the term 'institutional voids' when describing a lack of such market intermediaries, which would prevent companies from gaining reliable market information, thus adding a lot of inherent risks for MNEs seeking to establish operations in these environments. Institutional voids are to be viewed in the macro context in large emerging economies. Therefore, politics, culture, and history affect the development and function of institutions and existing institutional voids (Khanna and Palepu, 2010). For these reasons, it is important for firms to develop an ability to identify these institutional voids in order to achieve success in an emerging market. DiMaggio (1988) identified this and proposed a potential solution, arguing that organisations are not captives of their institutional environments. It is suggested that one should appreciate the agentic and often creative ways in which organisations influence and reflect their institutional environments, a process which is termed institutional entrepreneurship – the ability to adapt.

There are opposing views to these arguments, Kostova et al. (2008) argue that they are somewhat exaggerated with respect to the degree to which local institutions dictate the behaviour of multinational companies in foreign markets. It is contended that these companies operate in three distinctly organised markets, that is, home, host, and the international community. Instead, since they are operating in these markets simultaneously, there is no need to adapt to the isomorphic pressures (ibid). Additionally, Sudabby (2010) argues that studies only counting the outcomes of institutional processes in general fail to develop an understanding of the institutional theory. It is argued that studies ought to adopt a more subjective lens, e.g. by using broad case-study methods. Considering these perspectives, we aim to incorporate balancing arguments from the institutional discourse and consequently respond to the need for an extended discussion, as in Kostova et al. (2008). Therefore, we attempt to follow the call in Sudabby (2010) for an increased internal focus by supplementing the outcomes of each case company with details of pronounced organisational efforts of coping with institutional factors.

Previous models explaining the internationalisation process through entry modes, such as Dunning (1988), Johanson and Vahlne (1977) are relatively old. These traditional theories focus on replacing business activities to foreign locations to serve a local market (Contractor et al., 2010). Research and development (R&D) activities, for example, are transplanted in the foreign location to adapt the products to that market (Lewin, Massini, and Peeters, 2009). A more recent approach of internationalisation is that companies replace business activities to seek resources that increase their firm-specific capabilities and not just to adapt products to that local market (Contractor et al., 2010). Firms replace, for example, their R&D activities to India to develop products that are not only for the Indian market, but for multiple markets (Lewin et al., 2009). This strategy is referred to as offshoring, which goes beyond serving the local market and is focused on building a global network whose strategic objectives are to learn and operate on a global scale. Whilst opening up for potential global opportunities, the downside of offshoring through relocation of major parts of a business is the inherent risk of doing so (Dolgui and Proth 2013).

Most of the traditional internationalisation literature concerning the subject has mentioned three main options of entry mode: licensing or franchising, joint venture, and wholly owned subsidiary. The definitions we follow in Jahns et al. (2008) are outsourcing, offshore development centre (ODC) and captive offshoring, respectively. Consequently, these concepts are referring to as different foreign market entry-modes (Bardhan, Kroll, and Jaffee, 2013). Each option brings various risks, resources (tangible and intangible) and a certain degree of control (Hill, Hwang, and Kim, 1990). The framework developed in Kwon and Konopa (1993) show that there are advantages and disadvantages to these offshoring modes. For instance, direct investment modes like ODCs, and more indirect methods such as pure outsourcing. Here, the former is more resource-dependent and riskier than the latter. Due to the complexity of emerging markets, entrants often need local resources such as institutional or market knowledge that is embedded in existing organisations (Meyer and Estrin, 2001;

Anand and Delios, 2002). We know that companies are increasingly competing with global strategies that require both high integration and local resources, so it is reasonable to expect that offshoring models that cater to these needs are of increasing importance for coping with challenging local environments for MNEs. To understand how the two factors of institutions and resources interact, two extreme cases are portrayed in Figure 1.

<<Include Figure 1 about here >>

2.3. Research gap and theoretical propositions

From a practical standpoint, Khanna and Palepu (2010) highlight the importance for organisations entering India to plan for institutional voids. An offshore venture can only be successful by adapting to the dynamics of emerging-market systems and institutions. The notion of challenging institutional environments in countries like India is solidified in Bunyaratavej et al. (2007). It is argued that institutions play a critical role in supporting markets, and therefore needs to be considered in any offshoring strategy as they are fundamentally different than the home market. Further, Kostova and Roth (2002) state the importance of explicitly adapting to local environments by embracing host-country practices and relationships. Therefore, we strive to explore these issues by analysing how developed-market companies have fared in India. However, we seek to add to the literature by incorporating considerations related to firm types into our lens. With this in mind, we developed the first proposition:

Proposition 1: India's weak formal institutions act as barriers to offshoring firms, i.e. existing institutional voids negatively affect the outcome of offshoring ventures.

Meyer et al. (2009a) hypothesised that under strong institutions, offshore development centres would be more likely to be used when foreign entrants seek intangible resources held by local firms, while a captive model would be appropriate when relatively fewer local resources are required. In particular, they illustrated that resource-seeking strategies are pursued using different modes for different institutional contexts. Taking into account Meyer and Estrin's (2001) emphasis on tapping into local customs and resources, we posit that it is especially knowledge-based companies that will opt for hybrid models, i.e. ODC in Jahns et al. (2008). Such models enable the extraction of much-needed knowledge and customs from the local context. We thus attempt to add to the literature by including company types into the analysis and formulate our second proposition:

Proposition 2a: Knowledge-based firms are more likely to form collaborative offshoring models such as ODC to better connect with local (intangible) assets.

Building on this, we relate different offshoring models to resource needs based on the assumption that it will be harder for smaller firms, in terms of employee numbers, to set up a captive offshore model (Kwon and Konopa, 1993). This is due to the high-risk level and resource needs.

Proposition 2b: Smaller firms are more likely to opt for lower risk models such ODC compared to large firms.

As per DiMaggio (1988), success in the Indian market will be determined by firms using a dynamic behaviour to adapt to institutional factors and pressures. Firms locked into their home-market mentalities fail to adapt and become isomorphic with the institutional environment in India (Kostova and Roth, 2002).

Proposition 3: Offshoring firms exerting principles of institutional entrepreneurship are more likely to succeed in the Indian market.

With the propositions developed, the paper aims to explore these factors by analysing the different offshoring models to seek any emerging patterns. Through the review of the institutional theory, it seems that there are a number of opposing effects on matters like culture and market intermediaries (Slangen and Tulder, 2009). Consequently, any effects will not be proposed here, but rather remain open to any discoveries in the analysis.

3. Research Methodology

This section presents the research methodology used in this paper. The methodological structure employed follows the framework developed in Eisenhardt (1989), as it is a prominent process of conducting case-study-based research. The framework combines previous findings on qualitative methods such as Miles and Huberman (1984) and Yin (1981), with additions, such as the importance of basing theory on literature and using the cross-case analysis method to produce findings. The advantage of this model is that the resulting theory is more likely to be empirically valid because the process of building theory is very closely tied with the evidence. Thus, it is very likely that the resulting theory will be consistent with the practical observation (Eisenhardt, 1989). However, since the data and results are based on the specific case context, the risk is that the theory describes a very specific phenomenon or that the researcher is not able to raise the level of generality, resulting in a narrow or individual theory. Eisenhardt describes the process of theory building from case studies in eight individual steps. We present how the study fits into this framework below:

The first step of the framework is 'Getting Started', where the corresponding activity is to define a research question. In this regard, we noted that global furniture player IKEA planned an expansion into India and was expected to do so in 2017-2018 (Wharton, 2013). However, the company faced local policy issues initially, stalling the project. This event acted as inspiration for conducting a study to examine the outcomes of developed market MNEs investing in India. According to the framework, these insights allowed for '*the development of a priori constructs to create a better foundation of construct measures and formulation of the research question*' (Eisenhardt, 1998). Consequently, this research aims to understand: '**What are the factors that influence offshore-location decision outcomes?'**

To effectively respond to this question, there are three sub points that need to be addressed, specifically:

- What factors can be attributable to offshoring decisions made by case companies?
- What are the main reasons behind the companies' success (or failure) in this fundamentally different environment?
- Can the identified reasons be prioritised in some order of importance?

The next step is 'selecting cases' for the analysis. The method of the multi-case selection has been based on Yin (2009), following the case-study approach suggested in Eisenhardt (1989), where it is argued that each case should be selected so that it either predicts similar results (literal replication) or predicts contrasting results, but for anticipatable reasons (theoretical replication). The method in this paper follows the former, with a selection basis referred to as 'maximum variation cases' (Flyvbjerg, 2001). This strategy was chosen because it is particularly relevant in studies with small sample sizes (<30), and it involves a purposeful selection of cases that are very different in one dimension (Flyvbjerg, 2001). In this case, it is the company-size dimension.

For the purpose of this research, we focus on European (mainly Swedish) companies entering India. Based on the World Bank's governance indicators (World Bank, 2015), a widely used benchmark for the state of a location's formal institutions, India scores substantially lower in most dimensions. It can thus be deduced that India possesses weak or ineffective formal institutions – due to, among other things, corruption, bureaucracy and political risk (Business Sweden, 2015). As a result, it was a requirement that the case companies have, or had, a physical presence in India, and that there was information on, for example, year of entry, potential year of exit, and type of offshoring mode and so forth. This efficiently reduced the range of possible companies to choose from, and ultimately ten companies were selected. The majority are Swedish companies, but the sample of relevant cases strictly from Sweden was limited. This means that firms from other western European countries had to be included to gain a sufficient breadth, as in Yin (2009), with the constraint that they have to originate from countries with similar institutional levels/contexts to Sweden, so that those choices would not alter the theoretical relevance. The other countries are Finland, France and the UK. The ten companies selected vary in size from 26 employees to 381,227, in order to ensure that the selection is not biased towards strictly larger MNEs, while ensuring that the case firms are functional and active businesses, as in Meyer et al (2009a). The companies are listed in Table 1.

<<Include Table 1 about here>>

The next step of the methodology is data collection (crafting instruments and entering the field). Case-study research allows for a variety of data collection methods, which is potentially advantageous, because it allows the author to fine-tune the data collection methods to the issue at hand, in other words the research question (Saunders et al., 2009). According to Yin (2009), a study should use multiple data sources, both primary and secondary. These can include interviews, literature, annual reports, corporate websites, and industry. This, according to Yin (2009), is an advantage because the use of multiple data sources allows for triangulation, which is required in order to validate and cross-check the results. However, gaining access to suitable case-study organisations is likely the most challenging step in case-study research, as argued by Walsham (2006). In this study, the data has been collected from corporate websites, annual reports and news articles.

To extract information from data sources efficiently, i.e. from our business reports, news articles and company data, we employed text mining with qualitative analysis software. For the purpose of identifying relevant theoretical themes and/or concepts from the source information, we used an approach that resembles the related task called *Information Extraction.* This approach is used to locate particular items and extract specific attributes and establish relationships in natural-language documents, i.e. written text (Fan et al., 2006). An example of keywords extracted from case articles for the firm SCA is shown in Figure 2.

<<Include Figure 2 about here>>

The process involves searching for keywords in documents, while testing various coding themes as they emerged from the literature. The initial coding theme includes institutions, entry modes, outcomes, etc. The encoding of data indicates the categorisation of data in order to enable comparison with the elements in the same category and between categories, as in Yin (2011). This allowed us to create a collection – a corpus – of case-specific documents and/or web-links, which is then stored in designated cells in a database.

The emergent themes were processed to check and evaluate the relevance of results on the extracted data in relation to our theoretical background (Talib et al., 2016). It was therefore crucial that we had in-depth and complete information about the relevant theoretical fields prior to this stage. Additionally, such knowledge would help us in performing further information-extraction processes in order to attain more relevant results if needed (ibid). Feldman and Dagan (1995) suggest that certain elements can be generated through the process of *information extraction,* such as entities (e.g. people, companies, locations) and facts or events (e.g. relationships between entities, such as a CEO and a junior partner). In this study, an example of a possible event might be a company entering into a join venture to develop a product in the Indian market. An example of a fact could be a description of knowledge needed to cope with a local rule of law. Facts in this regard are usually static and thus do not change; events are more dynamic and generally have a specific time period attached, as noted by Feldman and Dagan (1995). We followed Talib et al., (2016)'s text-mining approach, including: *document collection,* which was our initial field-work, followed by *retrieving and pre-checking documents* for relevance and content. The *information-extraction* process identified relevant content and enabled us to create a database. If we found a keyword, we would go ahead to *identify patterns;* otherwise, we went back to the extraction phase. The final step is a position where we can *generate knowledge from relevant data.*

The focus in this paper is to conduct a structural coding of the data that adheres to the theoretical background and research question (Hedlund-De Witt, 2013). However, as in Strauss and Corbin (2008), an inductive or deductive approach does not have to be mutually exclusive; rather it is often the case that studies take a mixed approach and thus are open to new theoretical developments in the coding process. Strauss and Corbin (2008) presented a coding procedure, which Yin (2011) argued to be an *irregular dismantling process due to the lack of fixed routine.* We adopted a relatively more structured approach to *information extraction*, as outlined above. Codifying emergent themes from case sources allows for differentiation between key theoretical concepts relevant for the analysis. The codes are in the form of terms, concepts and phrases identified during the collection of case data. Our final coding scheme is shown in Table 2.

<<Include Table 2 about here>>

In order to determine company types among cases, it is appropriate to use theoretical definitions in the context of resource- and knowledge-based principles, where we can create two distinctions to capture resource differences among companies.

Companies operating in industries such as construction and manufacturing were assigned to the resource-based segment, as the essence of such ventures relies heavily on acquiring and operating tangible assets, such as industry equipment, plants and machinery, among others (Curado and Bontis, 2006). On the other hand, case companies operating in fields such as IT, consulting and research were assigned to the knowledge-based segment. These companies operate in a knowledge-driven environment, where intangible assets, such as patents and talent, are paramount to developing innovative products, conducting research and development or performing advisory services.

We came up with the following definitions:

- Resource-based industry segments include *manufacturing, retail, construction and telecommunications.* The primary assets are tangible.
- Knowledge-based industry segments include *IT, consulting, pharmaceuticals and chemicals.* The primary assets are intangible.

To create a conceptual synopsis, we listed the case materials related to company types, offshoring decisions and institutional factors, and linked them to venture outcomes. The outcomes are presented in Table 3.

<<Include Table 3 about here>>

4. Data analysis

The data from the cases were read and categorised into definitions in accordance with the literature. This is according to Hedlund-De Witt (2013), and is helpful for creating a basis for conducting exploratory enquiries used to gather categories or themes, which then became the foundation when conducting the analysis. Based on our methodology of gathering and retrieving case information as described in Section 3, the case database was finalised as per the instructions set out by Yin (2009). In this form, we can demonstrate what was found for each case and we were able to match data to the variables in the propositions. An excerpt of the database with the case-study notes is shown in Table 4.

<<Include Table 4 about here>>

This study further follows the concepts in Goodrick (2014), suggesting that analysis across cases should involve some kind of pattern-matching which entails comparing two or more samples from the cases to see if there are similarities or differences as a method of explaining the observed issues. During the cross-case comparison, the following questions about the nature of similarities or differences could emerge, and consequently be examined further:

- What are the key patterns that occur?
- What could be responsible for these patterns?
- Are the patterns surprising, or can they be linked to theory?

In particular, the following analysis is based upon Miles and Huberman's (1984) technique for a cross-case pattern comparison and clustering that involves a matrix to compare key events, triggers, themes and outcomes. Table 5 shows the cross-case comparison.

<<Include Table 5 about here>>

By centralising the collected data in the final database, we have attempted to follow the principles in Yin (2009) of increasing the reliability of the information presented in the cross-case comparison to maintain a chain of evidence. In the aggregate, we have aimed to move from one part of the multi-case study process to another, with clear cross-referencing to methodological procedures and to the resulting evidence. Details are presented in Table 6.

<<Include Table 6 about here>>

4.1. Institutional entrepreneurship

According to the cross-case analysis, adaptation to governmental and regulatory dynamics are prevalent themes for the group of companies that are successful. Four out of five in this group had indications that governmental factors have played a role in remaining operational in the Indian market. The most frequent underlying activities found in these cases involved deliberate collaboration with policy makers and various interests in government projects. In total, three out of five successful cases raised the importance of handling regulatory issues: there were indications of learning and adapting to local tax guidelines and rules regarding competition. Further, phrases such as local adaptation and local relationships emerged as frequent themes in successful cases. It is noteworthy that exiting company documentation did not include the same level of adapting to governmental or regulatory issues in India. Further, analysis of exiting firms shows that engagement of keywords like 'local' is lower, potentially indicating a lacking focus on the importance of embracing local relationships and knowledge compared to the successful group. Thus, the emergent pattern in relation to the institutional context is that firms not portraying an ability to adapt to formal institutions, without deviation, chose to exit the Indian market at some point.

4.2. Institutional voids

The analysis on barriers produced a mixed outcome. Even though none of the exit firms indicated an ability of adapting to institutions, three out of five instead referred explicitly to conflicts relating to government and regulation as contributing factors for exiting the Indian market. These reports most frequently involved issues relating to political instability, complex rules of law and regulatory uncertainty as causes of exit decisions. Some firms also indicated barriers related to external and internal factors. In the external environment, high competition and sustained low market share stood out as the main reasons for two out of five exit firms. The internal problems, as pronounced in two out of five exit cases, were largely related to the notion of a misaligned business strategy, where firms decided to reduce focus on emerging markets.

In summary, barriers effectively reflect institutional issues, because three out of five exit firms raise the issue of institutional conflict, consequently measuring the same construct and adding to the overall pattern related to institutional issues.

4.3. Offshoring model choice

The results show that four out of five successful companies entered India with the expected model of offshore development centres, while three out of five companies that exited chose captive models. This also links back to the fact that the successful firms more often than not pronounced a need for alliances and local relationships in order to survive, hence forming ODCs. It is also interesting to note that the majority of the companies that exited were resource-based and did not opt for offshoring models.

4.4. Effect on propositions

In sum, the cross-case analysis, with reasonable consistency, pinpointed the state of the institutional context in India. We wanted to establish the institutional voids present in the market, and therefore we outlined these prior to commenting on the effects on propositions. Reviewing our findings, we argue that the state of the key institutional voids in India are centred around two main factors: local governments are critical due to the degree of bureaucracy and the associated importance of forming relationships with local players. We found that local regulation plays a substantial role and firms need to pay attention to and conform to rules such as equity stake regulation when forming OCDs. Lastly, we did not find any indications relating to the informal environment and therefore we deemed this void to be inexplicit in our analysis.

The effects on the theoretical propositions in the study are summarised in Table 7. Note that the table considers organisational issues and institutional voids as indicated in the analysis and the corresponding effect on offshoring decisions, and not how these factors may affect decision-making in general.

<<Include Table 7 about here>>

Many of the interesting effects emergent from the analysis confirm our initial intuitions formed from previous studies on offshoring in emerging markets. It is clear that various institutions in India act as barriers to outside firms, who have to employ locally focused offshoring efforts. We find that firms implementing strategies suitable for India's dynamic environment are more successful, confirming the arguments in Kostova and Roth (2002). However, it is unclear whether these strategies entail, for example, operational adjustments or cultural adaptations, as mentioned in other studies (ibid). In relation to our company type definitions, we proposed that knowledge-based firms, i.e. those who use primarily intangible assets, opt for hybrid models primarily in order to tap into local talent and knowledge networks, absorbing local practices. Building on this, we see that small firms tended to be Knowledge-base, whereas larger firms were resource-base. Using the definitions in Jahns et al. (2006), we see that resource-strong firms tend to fall under the 'make' model when offshoring to India. This was in the form of captive offshoring. Smaller firms opted for a hybrid model in the form of ODCs.

Related to the above suggestions, we posited that firms are successful in India by forming or using an already existing capacity of adapting to formal processes in the market, such as government pressures. We argue that this in turn will aid the effective navigation of the institutional environment. In the analysis, we see that such a capacity exists in most of the successful cases and thus we believe it to be integral.

5. Discussion

In accordance with the research question, the aim was to compare the analysed patterns with the theoretical propositions and ultimately uncover answers to our research question. Further, the cross-case analysis sought to establish an understanding of the relationships studied on the basis of the theoretical framework, and to seek answers.

5.1. Company type and offshoring models

Following Meyer et al. (2004 and 2009b) and Anand and Delios (2002) in addition to the proposed impacts, the cross-case analysis confirmed that knowledge-based firms chose ODCs to enter a complex market like India, supporting proposition 2a. Further, the emergent pattern is that these knowledge-based firms also are of a smaller size and have a lower opportunity for captive models, as per proposition 2b. This suggests that resource-restricted companies may seek to outsource collaboratively to gain access to local knowledge, talent, share the costs and risks and consequently have a higher chance of having a successful business, as in Meyer et al (2009b).

On the other hand, the findings also indicate that the assumption did not hold true for resource-based firms, as the majority of those companies did captive offshoring. The result suggests that the resource-based firms in this case did not pursue a collaborative strategy when offshoring to India. Interestingly, the resource-based firms also, almost without exception, tended to be firms on the large side of the size spectrum. It can be inferred that these companies are resource-rich and the majority have vast global operations. This means that the resource-based firms, which tended to be more resource-rich than the knowledge-based firms, were not restricted to ODCs. Similarly, Heyman and Gustavsson-Tingvall (2012) found that R&D-intensive firms are relatively sensitive to institutional quality in emerging markets. In contrast, it was found that the relationship was much weaker for firms in industries with low R&D expenditures.

Ahsan and Musteen (2011) mentioned that Resource-rich firms offshoring to emerging markets in isolation from local players. They suggested that larger firms, in some cases, tend to be more willing and capable of investing significant resources into a foreign expansion mode. Hence, it can be said that firm size reduces some of India's 'barrier effects' and the company's dependence on local factors; consequently, firm size and captive offshoring being positively related may be seen as a confirmation of the synergy between these two factors. It is thus in line with the general RBV literature that large firms have chosen a captive offshoring model (Brouthers et al., 2008; Meyer, 2009a).

5.2. Institutional voids and adaptability

The theoretical framework's proposition is that Western companies offshoring to India must employ strategies that fit the dynamic market, and invest substantially in the process of learning and adapting to the local institutional climate, as this will differ majorly from home markets (Khanna and Palepu, 2010). The most prevalent factors pronounced were related to either governmental or regulatory factors in the formal environment, supporting (Delios and Beamish, 1999; Rottig, 2016; Hansen and Aktas, 2018) among others. Much in accordance with the IT literature in general (Zaheer, 1995; Khanna and Palepu, 2010; Meyer et al, 2009a), the findings indicate that the state of weak formal institutions increased the need for Western firms to employ strategies that focus on establishing and developing local relationships. The theory is that local firms, initially at least, are better at dealing with formal institutional voids. Thus, successful firms engaged in things similar to institutional entrepreneurship support proposition 3.

As a contrast, the pattern of unsuccessful case companies is that their decisions went against the theory by the likes of Kostova and Roth (2002), Rottig (2016). These organisations did not have a motivation to increase the level of adaptation required to better match their practices and strategies within the Indian institutional context. One cannot rule out that there were other drivers behind these firms exiting India that are not captured in this study. However, it is clear that unsuccessful firms repeatedly reported conflicts with respect to government and regulatory processes in India, which is in line with Marquis and Reynad (2015), which highlight reasons why firms may fail in emerging markets.

On the whole, the findings pinpoint that the main reasons for why the case companies failed in the Indian market is first because they did not employ locally focused business strategies needed in the dynamic and complex institutional climate. Second, these failing firms got involved with regulatory or governmental conflicts. The third and final reason for failure is the overall lack of adaptation to these conflicts. In other words, successful firms also met conflicts, e.g. imposed local sourcing policies, but chose to invest in relationships to adapt to such factors and thus overcome these key institutional pressures. As a consequence, they are better prepared for sustaining the Indian offshoring operations. This supports proposition 1.

5.3. Considering TCE

The findings in this study determine that the most relevant institutional barriers to succeeding in the Indian market can be linked to formal institutions. However, the results also indicate external and internal inhibiting factors, which can be linked to TCE concepts. Bounded rationality can inhibit firms entering foreign markets successfully because managers suffer from cognitive barriers that prevent them from fully understanding the new environment (Williamson, 1985). From the case analysis, it emerged that some firms exiting India chose to do so due to a realisation that an Indian operation is not in line with the corporate strategy. This paper argues that such decisions may be the effects of bounded rationality. It is also clear that an inhibiting factor was meeting high competition and struggling with a low market share. This supports Brouthers & Hennart (2007), who refer to the inability of some companies to handle and anticipate changes in the external environment in the new market to a sufficient extent – problems that arise more often in institutionally weak markets. In line with Peng et al. (2008), external insecurity in India incurs higher transaction costs which leads to increased risk of failure when Western companies engage in cross-border transfers.

5.4. Proposed theoretical model

The previous sub-sections have analysed and discussed the company cases that participated in this study and identified the main institutional factors that influenced and inhibited entry into the Indian market. The results from the findings and discussion will now be used to develop a theoretical model for integrating the main factors, in order to arrive at a situation where those factors can be ranked in order of importance. The development of this model constitutes the main academic originality of this study. Based on the findings, the study establishes that the case firms face three main factors when deciding to offshore to India, ranked from the bottom up in terms of importance, where formal institutions are classified the most important barrier to overcome, as depicted in Figure 3.

<<Include Figure 3 about here>>

6. Conclusion

This paper has combined a multi-theoretical approach and applied it to the studied cases focusing on offshoring decisions and firm outcomes in emerging markets. Even after many previous studies on these issues, the results derived from empirical research provide no clear consensus. As a consequence, the following research question was formulated: **What are the factors that influence the offshoring-location decision outcomes?**

This paper concludes that it is a set of intuitional factors that are very important for offshoring location decisions. This paper is a specific case in the context of European (mainly Swedish) companies entering India. The results indicate that key factors in relation to location decisions can be pinpointed for the developed-emerging market context. We developed a model that categorises the concepts that emerged as significant from the data analysis, as well as their relationships. Our findings show that this interaction arises from the coinciding impacts of resource and institutional characteristics on the efficiency of the host-market for a given FDI transaction, in particular the need for tangible or intangible assets when offshoring, depending on the company type. Our integrated model is recommended as a formulation of the factors that must be dealt with by European firms if they decide to offshore to India. Doing so allowed us to approach Subaddy (2010)'s critique of previous studies, namely to generate case-specific data on internal mechanisms of navigating institutional factors as an addition to binary outcomes. Specifically, and in line with previous scholars such as DiMaggio's (1988), the institutional pressures through political and legal frameworks in India can only be overcome by an explicit capability of adapting to and working with local situations. It is important to note that no claim is made that the factors and categories presented here are exhaustive, as they are specific to this study. Hopefully, these results can inspire further studies and efforts to develop more general insights that can be applied to a wider range of cases and contexts.

6.1. Implications of the study

While RBV and TCE have been the main theoretical frameworks for analysing the risks associated with offshoring, the theory and corresponding empirical findings have not been conclusive on how these risks impact on offshoring location and entry mode decisions. This paper has, in addition to these common frameworks, integrated institutional theory and a multiple case-study approach to analyse various dimensions of formal institutions and their implications for offshoring outcomes in India.

Doing business in this market requires inventiveness, as this is a location with weak institutions, poor infrastructure, and inconsistent government programs. The preceding international business literature has underrated the role of these factors, as this was not a substantial issue in earlier internationalisation frameworks when American firms were entering into Europe and vice versa (Barney, 1991).

The identification of relevant challenging factors in this paper, such as institutional voids, support the criticism contending that institutions merely act as background noise. In line with Slangen and Tulder (2009), we included broadly conceptualised constructs and join the wider concept of governance institutions and emerging market offshoring outcomes.

The research is in line with the call for further research on the questions of how and where to outsource or offshore in emerging markets. We developed the theoretical model providing a breakdown of those factors that firms need to plan for, i.e. 'how' to overcome the challenges in the Indian market. This simultaneously forms part of the practical implications in the form of a guiding instrument from a manager or business owner's perspective.

6.2. Limitations and future research

With regards to the limitations of this study, it is important to emphasise that we, with the case-study approach, do not seek to generalise our findings to a larger population. Rather, case-study research advances emerging theoretical propositions for framing and grounding further (perhaps quantitative) research. The case-study findings may complement, or contradict, existing offshoring and institution literature and offer a basis for developing hypotheses for offshoring research in emerging economies. We understand that these findings may have limited use in follow-up studies due to the sample size and the disproportionate amount of Swedish firms. Further, the actual testing of the new theories was beyond the scope of this paper.

We also only investigated equity-based foreign entry modes, as in Meyer et al. (2009), and do not differentiate levels of subsidiary ownership. A sophisticated modelling approach may try to integrate non-equity modes such as outsourcing in the analysis to test for possible interdependencies of this decision with the choice between offshoring models (make, hybrid, buy) and/or to differentiate modes by their level of ownership.

It would be valuable to develop a comprehensive model, including a full range of internal and external variables, to enhance the predictability of firm location and offshoring decisions. Panel data studies may be effective as some of the factors identified in this study may change over time. On the other hand, future research could also focus on how developed market MNE's are adapting to these foreign institutional environments and whether they are extracting any advantages that host country companies from the emerging world may have. Such studies may use mixed methods, e.g. interviews with managers, to determine such qualitative factors.

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